

CITY OF SMITHFIELD  
FINANCIAL STATEMENTS

June 30, 2006

**CITY OF SMITHFIELD**  
**TABLE OF CONTENTS**

	<u>Page</u>
<b>Financial Section</b>	
Independent Auditors' Report	1
Management Discussion and Analysis	3
<b>Basic Financial Statements</b>	
Statement of Net Assets	13
Statement of Activities	14
Balance Sheet - Governmental Funds	15
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Net Assets - Proprietary Funds	19
Statement of Revenues, Expenditures and Changes in Fund Net Assets - Proprietary Funds	20
Statement of Cash Flows - Proprietary Funds	21
Notes to Financial Statements	23
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule - General Fund	49
Budgetary Comparison Schedule - Redevelopment Agency	50
Budgetary Comparison Schedule - Recreation Center	51
Notes to Required Supplementary Information - Budgetary Reporting	52

**CITY OF SMITHFIELD**  
**TABLE OF CONTENTS**

	<u>Page</u>
Supplementary Information	
Governmental Funds:	
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	55
Schedule of Revenues and Expenditures - Budget and Actual - Debt Service Fund	58
Proprietary Funds:	
Statement of Revenues and Expenditures - Budget and Actual - Water Fund	59
Statement of Revenues and Expenditures - Budget and Actual - Sewer Fund	60
Statement of Revenues and Expenditures - Budget and Actual - Storm Sewer Fund	61
Statement of Revenues and Expenditures - Budget and Actual - Golf Fund	62
Supplemental Impact Fee Information	63
Governmental Audit Report:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	65
State Compliance Report:	
Report on Compliance with State Legal Compliance Requirements	69



**Certified Public Accountants**

1011 West 400 North, Suite 100  
P.O. Box 747  
Logan, UT 84323-0747  
Phone: (435) 752-1510 • (877) 752-1510  
Fax: (435) 752-4878

**OFFICERS:**

Paul D. Simkins, CPA  
Michael C. Kidman, CPA, MBA  
Brent S. Sandberg, CPA  
Brett C. Hugie, CPA  
Mark E. Low, CPA  
H. Paul Gibbons, CPA

**INDEPENDENT AUDITORS' REPORT**

To the Mayor and City Council  
City of Smithfield  
Smithfield, UT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Smithfield, Utah (the City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 17, 2007 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 49 through 52, are not a required part of the basic financial statement but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund information and the additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining fund information and the additional information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

*Jones Simkins, P.C.*

JONES SIMKINS, P.C.  
January 17, 2007

CITY OF SMITHFIELD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

This document is a narrative overview and analysis of the financial activities of Smithfield City for the fiscal year ending June 30, 2006. Smithfield City's management encourages readers to consider the information presented here in conjunction with the financial statements which follow this section. To help the reader with navigation of this report, the city's activities are classified in the following manner: governmental activities which refers to general administration, public safety, streets and public improvements, parks, recreation and public property, library, etc., while business-type activities refers to operations of the water, sewer, and storm sewer utilities, and the city's golf course.

### **FINANCIAL HIGHLIGHTS**

- The total net assets of Smithfield City increased by \$1,605,470 totaling \$22,578,181. The governmental net assets increased by \$1,157,856 and the business-type net assets increased by \$447,614. Of the four enterprise funds which comprise the business-type net assets only the Golf Fund showed a net asset loss. This loss which totaled \$52,435 was due primarily to depreciation.
- The total net assets of government and business-type activities is \$22,578,181 and is made up of \$16,863,799 in capital assets, such as land, infrastructure, buildings, and equipment, and \$5,714,382 in other net assets. The \$5,714,382 in other net assets is comprised of \$1,319,602 restricted for capital projects and the remaining \$4,394,780 is unrestricted net assets.
- Total long-term liabilities of the city decreased by \$445,302. The decrease in long-term liabilities was primarily the result of payments being made on bonds and leases.

### **REPORTING THE CITY AS A WHOLE**

This discussion and analysis is intended to serve as an introduction to Smithfield City's basic financial statements. Smithfield City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

*The government-wide financial statements* are designed to provide readers with a broad overview of Smithfield City's finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of Smithfield City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Smithfield City is improving or deteriorating. However, you will also need to consider other non-financial factors.

CITY OF SMITHFIELD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

- *The statement of activities* presents information showing how the city's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Both of the government-wide financial statements, which together comprise the *statement of activities*, distinguish between activities that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The government-wide financial statements can be found on pages 13 and 14 of this report.

### REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Smithfield City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the city can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental funds** - These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the city's general government operations and basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the city's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The major governmental funds (as determined by generally accepted accounting principles) are the General Fund, the Redevelopment Agency Special Fund, the Capital Improvement Fund, and the Recreation Fund and Debt Service Fund which are new to this grouping.

- **Proprietary funds** - Smithfield City uses only enterprise funds to account for proprietary fund activity. Smithfield City uses enterprise funds to account for its water, sewer and storm sewer utilities, and golf course operations. The funds are reported using the same method as the Statement of Activities. As determined by generally accepted accounting principles, each of these enterprise funds meets the criteria for major fund classification.

CITY OF SMITHFIELD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

- **Fiduciary funds** - These funds are used to account for resources held for the benefit of parties outside the government. The city currently has no fiduciary funds.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Smithfield City, assets exceed liabilities by \$22,578,181.

By far the largest portion of Smithfield City's net assets (74.7%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, machinery and equipment, net of depreciation). The city uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the city's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

STATEMENT OF NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Current and other assets	\$ 3,857,039	4,652,761	2,261,845	2,508,757	6,118,884	7,161,518
Capital assets	<u>10,921,542</u>	<u>11,307,791</u>	<u>9,844,547</u>	<u>9,702,877</u>	<u>20,766,089</u>	<u>21,010,668</u>
Total assets	<u>14,778,581</u>	<u>15,960,552</u>	<u>12,106,392</u>	<u>12,211,634</u>	<u>26,884,973</u>	<u>28,172,186</u>
Current liabilities	953,014	1,125,247	238,498	193,310	1,191,512	1,318,557
Noncurrent liabilities	<u>2,595,022</u>	<u>2,446,904</u>	<u>2,125,728</u>	<u>1,828,544</u>	<u>4,720,750</u>	<u>4,275,448</u>
Total liabilities	<u>3,548,036</u>	<u>3,572,151</u>	<u>2,364,226</u>	<u>2,021,854</u>	<u>5,912,262</u>	<u>5,594,005</u>
Invested in capital assets, net of debt	8,458,824	8,989,466	7,718,819	7,874,333	16,177,643	16,863,799
Restricted	987,187	1,319,602	314,308	-	1,301,495	1,319,602
Unrestricted	<u>1,784,534</u>	<u>2,079,333</u>	<u>1,709,039</u>	<u>2,315,447</u>	<u>3,493,573</u>	<u>4,394,780</u>
Total net assets	\$ <u>11,230,545</u>	<u>12,388,401</u>	<u>9,742,166</u>	<u>10,189,780</u>	<u>20,972,711</u>	<u>22,578,181</u>

An additional part of net assets (5.8 percent) are assets that are subject to external restrictions on how they may be expended (debt reserve, capital projects, or other purposes). The remaining 19.5 percent of net assets can be used to meet the city's ongoing obligations to its creditors and citizens.



CITY OF SMITHFIELD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

**Governmental Activities**

Governmental activities net assets increased by \$1,605,470 for the current fiscal year. Key elements of this increase are as follows:

- The sales tax revenue increased \$77,711 as a result of increased sales from our existing businesses as well as an increase in the statewide sales tax distribution brought on by a strong economy.
- Franchise taxes increased by \$90,539 over FY2005. Most of this increase was the result of an increase in the energy taxes collected due to an increase in the retail cost for natural gas and electricity.
- The city was awarded a number of grants to fund capital projects and purchase equipment including a \$60,000 award from the RAPZ Tax program and \$10,014 in fire and EMS grants.
- Primarily the result of the development of land within the city for residential purposes, the city received over \$387,000 worth of street property and improvements
- The city continues to make improvements at Forrester Acres Park including two parking lots, preparations for new soccer fields, and other improvements at a cost of \$196,000.
- The city has long held to a policy of closely monitoring the expenditures of the various departments within the city. Each department strives to spend at a level that will result in a remaining balance of 5-10 percent below the authorized budget. This policy has allowed the city to contribute \$320,000 to the capital reserve fund.

**Business-type activities**

Business-type activities net assets increased by \$447,614. Key elements of this increase are as follows:

- As subdivisions are developed in Smithfield, the developer is responsible to construct the various utilities that are necessary to service the future homes and businesses in the developments. The improvements are then dedicated to the city for future operation and maintenance. Included among these utilities are the water and sewer systems, and the storm sewer. The value of these improvements is then added to the city's assets.
- The overall charges for services attributed to the proprietary funds (water, sewer, storm sewer, and golf course) remain very consistent with slight increases in all funds except the water fund which can vary depending on the demand for outside watering. During drier years, if water is available, customers will use a greater amount of water. In addition, if

**CITY OF SMITHFIELD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2006

water is plentiful, customers have often been shown to be more wasteful. On the other hand, a wet golf season can have a detrimental effect on the revenues of the golf course curtailing the play on the golf course and expected revenues particularly during the fall and spring months. This past spring was exceptionally wet which had a detrimental effect on the revenue of the golf course.

**CHANGES IN NET ASSETS**

	Governmental Activities		Business-type Activities		Total	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Revenues						
Program revenues						
Charges for services	\$ 1,422,666	1,496,255	2,298,855	2,596,453	3,721,521	4,092,708
Operating grants and contributions	380,937	551,402	-	-	380,937	551,402
Capital grants and contributions	427,634	549,038	349,042	-	776,676	549,038
General revenues						
Property taxes	723,966	687,975	-	-	723,966	687,975
Sales and use taxes	855,242	932,953	-	-	855,242	932,953
Other taxes	415,338	505,877	-	-	415,338	505,877
Interest	53,682	119,208	40,601	78,505	94,283	197,713
Gains (loss) sale of assets	27,361	-	-	200	27,361	200
Insurance recovery	36,917	-	-	-	36,917	-
Miscellaneous	<u>3,477</u>	<u>3,684</u>	<u>-</u>	<u>-</u>	<u>3,477</u>	<u>3,684</u>
Total revenues	<u>4,347,220</u>	<u>4,846,392</u>	<u>2,688,498</u>	<u>2,675,158</u>	<u>7,035,718</u>	<u>7,521,550</u>
Expenses						
General government	948,051	949,438	-	-	948,051	949,438
Public safety	792,990	863,936	-	-	792,990	863,936
Streets and public improvements	1,047,521	1,010,800	-	-	1,047,521	1,010,800
Parks and recreation	533,851	491,587	-	-	533,851	491,587
Library	122,291	131,954	-	-	122,291	131,954
Interest and fiscal charges	114,349	240,821	-	-	114,349	240,821
Water	-	-	466,314	411,459	466,314	411,459
Sewer	-	-	646,962	697,494	646,962	697,494
Storm sewer	-	-	70,659	100,224	70,659	100,224
Golf course	<u>-</u>	<u>-</u>	<u>971,707</u>	<u>1,018,367</u>	<u>971,707</u>	<u>1,018,367</u>
Total expenses	<u>3,559,053</u>	<u>3,688,536</u>	<u>2,155,642</u>	<u>2,227,544</u>	<u>5,714,694</u>	<u>5,916,080</u>
Change in net assets	788,168	1,157,856	532,856	532,856	1,321,024	1,605,470
Net assets - beginning	<u>10,442,377</u>	<u>11,230,545</u>	<u>9,209,310</u>	<u>9,742,166</u>	<u>19,651,687</u>	<u>20,972,711</u>
Net assets - ending	\$ <u>11,230,545</u>	<u>12,388,401</u>	<u>9,742,166</u>	<u>10,189,780</u>	<u>20,972,711</u>	<u>22,578,181</u>

CITY OF SMITHFIELD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

**FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS**

The focus of the city's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the city's financing requirements. As of June 30, 2006, the City's governmental funds (General, Special Revenue, Capital Improvement and the Recreation Fund) reported combined fund equity of \$3,525,541. The General Fund is the chief operating fund of the city. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses are accounted for in this fund.

Taxes continue to be the largest source of revenue in the General Fund and represented 52.0% of the total general fund revenues. This compares with 52.4% for 2005. The two largest elements of taxes are sales and use taxes and property taxes, as it has been for the last several years. Sales and use tax represents 47.8% of total tax revenues and 24.7% of total general fund revenues. These compare with 47.4% and 24.8% respectively in 2005. Property tax including fees-in-lieu represents 26.7% of total tax revenues and 13.9% of the total general fund revenues. These compare with 29.6% and 15.5% in 2005.

The city maintains enterprise funds to account for the business-type activities of the city. The separate fund statements included in this report provide the same information for business-type activities as is provided in the government-wide financial statements.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

During the fiscal year it's not uncommon to make adjustments to the original budget. There are often matters that are unknown during the initial budget approval process which occur during the course of the year which require action on the part of the city. These unknowns may be factors outside the control of the city administration such as significant increases in the cost of fuel or particularly harsh winters or hot summers which can drive up the cost of energy. There are also purchasing and construction opportunities which come during the year that, if possible, the city tries to take advantage of.

The budget is constantly under review by the office staff, mayor, and city council. Typically, adjustments to the budget are considered mid way through the fiscal year and then again as the year comes to a close. Many adjustments are minor while some are of greater significance. During fiscal year 2006 the city took advantage of an opportunity to purchase new playground equipment for the city's parks at nearly a 50% discounted rate. After doing a thorough review of the offer and concluding the savings were legitimate and not a case of over inflating the cost only to give a discount, the city decided to purchase new equipment for each of the established playground areas. The city had known for some time that the existing equipment failed to meet the minimum safety standards so the opportunity was very timely. An adjustment was made to the budget to cover the \$68,579 expenditure.

CITY OF SMITHFIELD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

The city was faced with significantly higher fuel prices that affected virtually every aspect of city government. Coupled with a very snowy winter requiring an above average snow removal effort and the various construction projects the public works department was involved with, the city's fuel budget was rapidly being consumed. In order to continue providing basic services and meet the fuel needs of the public works department and public safety departments, adjustments were made to the fuel portion of several budgets.

Working with an additional installment of RAPZ tax grant money awarded to the city by Cache County, the city continued an aggressive expansion of Forrester Acres. During the 2006 fiscal year the city great progress towards completing three new soccer fields as well as additional landscaping around the concession area at the softball complex. A new parking lot was also completed to service the Blue Sox ball park as well as the softball and new soccer fields. Several hundred feet of additional walking trail were added to the expanding trail system in the park. The city also continued to develop Heritage Park although the effort was slowed because of the dedication to Forrester Acres. Nevertheless, the balance of the sprinkling system was completed in the area south of Summit Creek. Sodding of the park is planned for fiscal year 2007.

#### **CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital assets - Smithfield City's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$21,010,668 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, infrastructure (streets, sidewalks, curb and gutter, bridges, etc.), and machinery and equipment. The increase in the city's governmental fixed assets for the current year was \$395,786 and depreciation expense was \$454,914.

Most of the increase in governmental fixed assets was attributed to streets that were constructed by outside parties as a result of subdivision development. These new roadways which were dedicated to the city included curb and gutter, sidewalk, and the right of way property. These new streets accounted for \$422,642 of the total. Other significant contributors were the result of improvements at Forrester Acres which accounted for an increase of \$196,443

The increase in proprietary fixed assets included \$244,525 in new waterlines, \$6,647 in new sewer lines, and \$20,798 in new storm sewer infrastructure. These fixed asset increases were the result of activities by the city. Contributions by subdivision developers are accepted as assets when the City determines that the applicable assets are placed in service. As a result, no contributions were recognized this year.

Additional information on the city's capital assets can be found in the footnotes to these financial statements.

CITY OF SMITHFIELD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2006

Long-term debt - As of June 30, 2006, the city had total debt outstanding of \$4,275,448 compared with 4,720,750 as of June 30, 2005. A portion of Smithfield City's long term debt, \$1,870,000 is general obligation debt which was used to build the recreation center in cooperation with the Cache County School District. The only other general obligation debt remains with the sewer bond in the amount of \$1,066,000 which was issued in 1988 to pay for the construction of a citywide sewer system. The city also has two lease-purchase agreements with Zions First National Bank which were established to build the new fire station and golf course clubhouse. These two agreements have resulting debt of \$413,954 and \$762,544 for the fire station and clubhouse respectively. In fiscal year 2005 the city entered into a third lease-purchase agreement, this time with Toro financing for a grounds mower to be used in the parks. The resulting debt remaining on this piece of equipment is \$34,371.

OUTSTANDING DEBT

	Governmental Activities		Business-type Activities		Total	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
General obligation bonds	\$ 1,975,000	\$1,870,000	\$1,333,000	\$1,066,000	\$3,308,000	\$2,936,000
Contract payable	67,794	53,471	-	-	67,794	53,471
Compensated absences	64,510	75,108	-	-	64,510	75,108
Capital leases payable	<u>487,718</u>	<u>448,325</u>	<u>792,728</u>	<u>762,544</u>	<u>1,280,446</u>	<u>1,210,869</u>
Totals	\$ <u>2,595,022</u>	<u>2,446,904</u>	<u>2,125,728</u>	<u>1,828,544</u>	<u>4,720,750</u>	<u>4,275,448</u>

Additional information on the outstanding debt obligations of the city can be found in the footnotes of these financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

- Among the major projects budgeted for next year is an extension of 400 North from 300 East to Upper Canyon Road. This project is a join effort with a group of investors who are subdividing property on the northeast bench.
- A 1.5 million gallon water storage reservoir is expected to be completed before the end of next fiscal year. In addition to the storage reservoir, a new pumping station will also be built. A new 14 inch waterline will be extended to the reservoir along a new alignment for 300 South from 1000 East to approximately 1600 East. The City issued bonds after year-end to finance this water project. The new roadway will initially be gravel but eventually an asphalt maintenance course will be added.
- New restroom will be built in the area of the equestrian arena at Forrester Acres. Also the walking trail surround the park should be finished as well as all of the major landscaping.

**CITY OF SMITHFIELD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2006**

- New playground equipment will be installed in Hunter Park and the park in the East Sky View Subdivision. Initial efforts will also be undertaken to landscape these areas.
- The Utah Department of Transportation has scheduled Main Street from 500 North to 400 South for reconstruction. In conjunction with this project the city will be replacing a number of waterlines beneath the highway.
- A contract for the design for a new city office and library complex has been signed with Nexus Architects. During this coming year it is anticipated the design will be completed allowing for the bidding and perhaps construction of the new building the following year.
- The property tax rates for the city's fiscal year 2006-07 will decrease as they have traditionally each year. The rate for general purposes will be reduced from 0.000860 to 0.000840. The rate for the general obligation bond on the city's recreation center will also be reduced going from 0.000841 to 0.000780. There are no anticipated changes in the city's utility rates.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of Smithfield City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Smithfield City Manager, P. O. Box 96, Smithfield Utah, 84335.

## **Basic Financial Statements**

CITY OF SMITHFIELD  
STATEMENT OF NET ASSETS  
June 30, 2006

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>Assets</u>			
Pooled cash and cash equivalents	\$ 2,404,857	1,186,733	3,591,590
Cash and cash equivalents	1,044,645	1,060,158	2,104,803
Due from other governments	956,172	-	956,172
Accounts receivable	77,641	177,625	255,266
Inventory	-	84,241	84,241
Restricted assets:			
Cash and cash equivalents	167,472	-	167,472
Notes receivable	1,974	-	1,974
Land	3,704,738	371,152	4,075,890
Construction in progress	-	73,752	73,752
Buildings and improvements	4,378,432	14,699,178	19,077,610
Infrastructure	6,862,625	-	6,862,625
Furniture and equipment	1,422,127	1,287,142	2,709,269
Accumulated depreciation	(5,060,131)	(6,728,347)	(11,788,478)
Total assets	\$ 15,960,552	12,211,634	28,172,186
<u>Liabilities</u>			
Accounts payable and accrued expenses	\$ 232,309	134,849	367,158
Deposits	290,070	50,251	340,321
Deferred revenue	602,868	8,210	611,078
Noncurrent liabilities:			
Due in one year	238,401	297,140	535,541
Due in more than one year	2,208,503	1,531,404	3,739,907
Total liabilities	3,572,151	2,021,854	5,594,005
<u>Net Assets</u>			
Investments in capital assets, net of related debt	8,989,466	7,874,333	16,863,799
Restricted	1,319,602	-	1,319,602
Unrestricted	2,079,333	2,315,447	4,394,780
Total net assets	\$ 12,388,401	10,189,780	22,578,181

The accompanying notes are an integral  
part of these financial statements



CITY OF SMITHFIELD  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Activities</b>	<b>Expenses</b>					
Primary government:						
Governmental:						
General government	\$ 949,438	236,920	-	(712,518)	-	(712,518)
Public safety	863,936	333,889	-	(379,617)	-	(379,617)
Streets and public improvements	1,010,800	498,066	549,038	329,952	-	329,952
Parks, recreation and public property	491,587	426,015	-	31,343	-	31,343
Library	131,954	1,365	-	(120,180)	-	(120,180)
Interest and fiscal charges	240,821	-	-	(240,821)	-	(240,821)
Total governmental activities	3,688,536	1,496,255	551,402	(1,091,841)	-	(1,091,841)
Business-type activities:						
Water	411,459	729,185	-	-	317,726	317,726
Sewer	697,494	780,141	-	-	82,647	82,647
Storm sewer	100,224	124,937	-	-	24,713	24,713
Golf course	1,018,367	962,190	-	-	(56,177)	(56,177)
Total business-type activities	2,227,544	2,596,453	-	-	368,909	368,909
Total primary government	\$ 5,916,080	4,092,708	551,402	(1,091,841)	368,909	(722,932)
General revenues:						
Taxes:						
Sales and use tax				932,953	-	932,953
Property tax				687,975	-	687,975
Other taxes				505,877	-	505,877
Total taxes				2,126,805	-	2,126,805
Interest				119,208	78,505	197,713
Gain on sale of assets				-	200	200
Miscellaneous				3,684	-	3,684
Total general revenues and transfers				2,249,697	78,705	2,328,402
Change in net assets				1,157,856	447,614	1,605,470
Net assets—beginning				11,230,545	9,742,166	20,972,711
Net assets—ending				\$ 12,388,401	10,189,780	22,578,181

The accompanying notes are an integral part  
of these financial statements.

CITY OF SMITHFIELD  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2006

	General	Special Revenue		Capital Improvements	Debt Service	Total Governmental Funds
		RDA	Recreation			
<u>Assets</u>						
Pooled cash and cash equivalents	\$ 102,229	978,343	8,071	1,256,552	59,662	2,404,857
Cash and cash equivalents	652,238	-	-	392,407	-	1,044,645
Due from other governments	765,172	191,000	-	-	-	956,172
Accounts receivable	77,641	-	-	-	-	77,641
Restricted assets:						
Cash and cash equivalents	167,472	-	-	-	-	167,472
Notes receivable	-	1,974	-	-	-	1,974
						-
Total assets	\$ <u>1,764,752</u>	<u>1,171,317</u>	<u>8,071</u>	<u>1,648,959</u>	<u>59,662</u>	<u>4,652,761</u>
<u>Liabilities and Fund Balances</u>						
<u>Liabilities:</u>						
Accounts payable and accrued expenses	\$ 225,808	-	6,500	-	-	232,308
Deposits	290,070	-	-	-	-	290,070
Deferred revenue	411,868	192,974	-	-	-	604,842
Total liabilities	<u>927,746</u>	<u>192,974</u>	<u>6,500</u>	<u>-</u>	<u>-</u>	<u>1,127,220</u>
<u>Fund Balances</u>						
Fund balances:						
Reserved	341,259	-	-	-	-	341,259
Unreserved:						
Undesignated	<u>495,747</u>	<u>978,343</u>	<u>1,571</u>	<u>1,648,959</u>	<u>59,662</u>	<u>3,184,282</u>
Total fund balances	<u>837,006</u>	<u>978,343</u>	<u>1,571</u>	<u>1,648,959</u>	<u>59,662</u>	<u>3,525,541</u>
Total liabilities and fund balances	\$ <u>1,764,752</u>	<u>1,171,317</u>	<u>8,071</u>	<u>1,648,959</u>	<u>59,662</u>	<u>4,652,761</u>

The accompanying notes are an integral part  
of these financial statements.

CITY OF SMITHFIELD  
RECONCILIATION OF THE BALANCE SHEET  
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
For the Year Ended June 30, 2006

Total fund balances for governmental funds	\$	3,525,541
--	----	-----------

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Land	\$	3,704,738	
Infrastructure subject to depreciation		6,862,625	
Buildings, equipment and other depreciable assets		5,800,559	
Accumulated depreciation		<u>(5,060,131)</u>	11,307,791

Certain revenues earned by the City will be collected after year end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		1,973
--	--	-------

Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable	(1,870,000)		
Notes payable	(53,471)		
Compensated absences	(75,108)		
Capital leases	<u>(448,325)</u>		<u>(2,446,904)</u>

Net assets of governmental activities	\$	<u>12,388,401</u>
---------------------------------------	----	-------------------

The accompanying notes are an integral part  
of these financial statements.

CITY OF SMITHFIELD  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES-  
GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2006

	<u>Special Revenue</u>			<u>Capital</u>	<u>Debt</u>	<u>Total</u>
	<u>General</u>	<u>RDA</u>	<u>Recreation</u>	<u>Improvements</u>	<u>Service</u>	<u>Governmental</u>
						<u>Funds</u>
Revenues:						
Taxes	\$ 1,961,805	165,000	-	-	-	2,126,805
Licenses and permits	217,042	-	-	-	-	217,042
Intergovernmental	598,610	-	-	-	-	598,610
Charges for services	713,370	-	294,363	-	-	1,007,733
Fine and forfeitures	196,741	-	-	-	-	196,741
Library	11,774	-	-	-	-	11,774
Miscellaneous revenues	74,040	42,611	-	25,253	-	141,904
<b>Total revenues</b>	<b>3,773,382</b>	<b>207,611</b>	<b>294,363</b>	<b>25,253</b>	<b>-</b>	<b>4,300,609</b>
Expenditures:						
General government	939,180	-	-	3,615	-	942,795
Public safety	803,380	-	-	-	-	803,380
Streets and public improvements	793,199	12,697	-	-	-	805,896
Parks, recreation and public property	325,540	-	381,803	31,802	-	739,145
Library	118,681	-	-	10,887	-	129,568
Debt service:						
Principal	-	14,323	-	-	132,768	147,091
Interest	-	-	-	-	108,053	108,053
<b>Total expenditures</b>	<b>2,979,980</b>	<b>27,020</b>	<b>381,803</b>	<b>46,304</b>	<b>240,821</b>	<b>3,675,928</b>
Excess (deficiency) of revenues over expenditures	793,402	180,591	(87,440)	(21,051)	(240,821)	624,681
Other financing sources (uses):						
Transfers in (out)	(730,110)	-	78,200	410,956	240,954	-
<b>Total other financing sources (uses)</b>	<b>(730,110)</b>	<b>-</b>	<b>78,200</b>	<b>410,956</b>	<b>240,954</b>	<b>-</b>
Net change in fund balance	63,292	180,591	(9,240)	389,905	133	624,681
Fund balance - beginning	773,714	797,752	10,811	1,259,054	59,529	2,900,860
Fund balance - ending	\$ 837,006	978,343	1,571	1,648,959	59,662	3,525,541

The accompanying notes are an integral  
part of these financial statements

CITY OF SMITHFIELD  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2006

Net change in fund balance - Total governmental funds		\$ 624,681
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$454,914) exceeded capital outlays (\$292,215).		(162,699)
Governmental funds do not report the contribution of capital assets from third parties. However, the Statement of Activities reports these third party contributions as capital grants and contributions.		548,948
Net effect of revenues reported on the accrual basis in the Statement of Activities that do not provide current financial resources and thus are not reported as revenues in the governmental funds until available.		(1,192)
Bond proceeds and capital leases provide current financial resources to governmental funds by issuing debt which increases long-term liabilities in the Statement of Net Assets. Repayment of bond and capital lease principal are expenditures in the governmental funds. Accrued vacation payable is recorded as expense when used in the governmental funds, but recorded as expense when earned in the Statement of Activities.		
Payment of bond principal	\$ 105,000	
Payment of notes payable principal	14,323	
Payments on capital leases	39,393	
Change in accrued vacation payable	<u>(10,598)</u>	<u>148,118</u>
Change in net assets of governmental activities		\$ <u><u>1,157,856</u></u>

The accompanying notes are an integral part  
of these financial statements.

CITY OF SMITHFIELD  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2006

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Storm Sewer Fund</u>	<u>Golf Fund</u>	<u>Total Business Type Activities</u>
<u>Assets</u>					
Pooled cash and cash equivalents	\$ 458,305	692,903	35,525	-	1,186,733
Cash and cash equivalents	515,241	538,819	-	6,098	1,060,158
Due from pooled cash	-	8,894	-	-	8,894
Accounts receivable	92,711	69,055	11,597	4,262	177,625
Inventory	-	-	-	84,241	84,241
Capital assets, net	<u>2,099,410</u>	<u>5,227,394</u>	<u>634,353</u>	<u>1,741,720</u>	<u>9,702,877</u>
Total assets	<u>\$ 3,165,667</u>	<u>6,537,065</u>	<u>681,475</u>	<u>1,836,321</u>	<u>12,220,528</u>
<u>Liabilities</u>					
Due to pooled cash	\$ -	-	-	8,894	8,894
Accounts payable	21,564	4,785	2,965	57,596	86,910
Accrued expenses	11,108	8,891	-	27,940	47,939
Deposits	50,251	-	-	-	50,251
Deferred revenue	-	-	-	8,210	8,210
Long-term liabilities					
Due in one year	-	266,000	-	31,140	297,140
Due in more than one year	-	800,000	-	731,404	1,531,404
Total liabilities	<u>82,923</u>	<u>1,079,676</u>	<u>2,965</u>	<u>865,184</u>	<u>2,030,748</u>
<u>Net Assets</u>					
Invested in fixed assets, net of related debt	2,099,410	4,161,394	634,353	979,176	7,874,333
Unrestricted	<u>983,334</u>	<u>1,295,995</u>	<u>44,157</u>	<u>(8,039)</u>	<u>2,315,447</u>
Total net assets	<u>\$ 3,082,744</u>	<u>5,457,389</u>	<u>678,510</u>	<u>971,137</u>	<u>10,189,780</u>

The accompanying notes are an integral  
part of these financial statements

CITY OF SMITHFIELD  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
For The Year Ended June 30, 2006

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Storm Sewer Fund</u>	<u>Golf Fund</u>	<u>Total Enterprise Funds</u>
Operating revenues:					
Charges for services	\$ 566,191	720,361	124,937	950,799	2,362,288
Connection fees	24,341	3,400	-	-	27,741
Miscellaneous	5,653	-	-	11,391	17,044
Total operating revenues	<u>596,185</u>	<u>723,761</u>	<u>124,937</u>	<u>962,190</u>	<u>2,407,073</u>
Operating expenses:					
Salaries and benefits	213,518	187,394	78,729	467,907	947,548
Current expenses	99,899	284,228	2,864	418,131	805,122
Depreciation	98,042	225,872	18,631	102,340	444,885
Total operating expenses	<u>411,459</u>	<u>697,494</u>	<u>100,224</u>	<u>988,378</u>	<u>2,197,555</u>
Operating income (loss)	<u>184,726</u>	<u>26,267</u>	<u>24,713</u>	<u>(26,188)</u>	<u>209,518</u>
Non-operating income (expense):					
Interest expense	-	-	-	(29,989)	(29,989)
Gain on sale of assets	-	-	-	200	200
Impact fees	133,000	56,380	-	-	189,380
Interest income	37,477	36,166	1,320	3,542	78,505
Total non-operating income (expense)	<u>170,477</u>	<u>92,546</u>	<u>1,320</u>	<u>(26,247)</u>	<u>238,096</u>
Change in net assets	355,203	118,813	26,033	(52,435)	447,614
Net assets - beginning	<u>2,727,541</u>	<u>5,338,576</u>	<u>652,477</u>	<u>1,023,572</u>	<u>9,742,166</u>
Net assets - ending	<u>\$ 3,082,744</u>	<u>5,457,389</u>	<u>678,510</u>	<u>971,137</u>	<u>10,189,780</u>

The accompanying notes are an integral  
part of these financial statements

CITY OF SMITHFIELD  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For The Year Ended June 30, 2006

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Storm Sewer Fund</u>	<u>Golf Fund</u>	<u>Total</u>
Cash flows from operating activities:					
Receipts from customers and users	\$ 560,005	721,946	120,212	963,290	2,365,453
Payments to suppliers	(133,227)	(280,001)	(1,489)	(395,527)	(810,244)
Payments to employees	(219,288)	(190,588)	(82,694)	(485,472)	(978,042)
Net cash provided by operating activities	<u>207,490</u>	<u>251,357</u>	<u>36,029</u>	<u>82,291</u>	<u>577,167</u>
Cash flows from non-capital financing activities:					
Change in pooled cash	-	63,047	(11,640)	(51,407)	-
Impact fees	<u>133,000</u>	<u>56,380</u>	<u>-</u>	<u>-</u>	<u>189,380</u>
Net cash provided by (used in) non-capital financing activities	<u>133,000</u>	<u>119,427</u>	<u>(11,640)</u>	<u>(51,407)</u>	<u>189,380</u>
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(244,525)	(6,647)	(20,798)	(31,245)	(303,215)
Proceeds from the sale of assets	-	-	-	200	200
Principal payments on long-term debt	-	(267,000)	-	(30,183)	(297,183)
Interest and fees paid on long-term debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>(29,989)</u>	<u>(29,989)</u>
Net cash used in capital and related financing activities	<u>(244,525)</u>	<u>(273,647)</u>	<u>(20,798)</u>	<u>(91,217)</u>	<u>(630,187)</u>
Cash flows from investing activities:					
Interest received	<u>37,477</u>	<u>36,166</u>	<u>1,320</u>	<u>3,542</u>	<u>78,505</u>
Net cash provided by investing activities	<u>37,477</u>	<u>36,166</u>	<u>1,320</u>	<u>3,542</u>	<u>78,505</u>
Net increase in cash and cash equivalents	133,442	133,303	4,911	(56,791)	214,865
Cash and cash equivalents - beginning	<u>840,104</u>	<u>1,098,419</u>	<u>30,614</u>	<u>62,889</u>	<u>2,032,026</u>
Cash and cash equivalents - ending	<u>\$ 973,546</u>	<u>1,231,722</u>	<u>35,525</u>	<u>6,098</u>	<u>2,246,891</u>
Contained in the following accounts:					
Pooled cash and cash equivalents	458,305	692,903	35,525	-	1,186,733
Cash and cash equivalents	<u>515,241</u>	<u>538,819</u>	<u>-</u>	<u>6,098</u>	<u>1,060,158</u>
	<u>973,546</u>	<u>1,231,722</u>	<u>35,525</u>	<u>6,098</u>	<u>2,246,891</u>

(continued)

The accompanying notes are an integral  
part of these financial statements



(continued)

CITY OF SMITHFIELD  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2006

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Storm Sewer Fund</u>	<u>Golf Fund</u>	<u>Total</u>
Supplemental disclosures:					
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ 184,726	26,267	24,713	(26,188)	209,518
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	98,042	225,872	18,631	102,340	444,885
Net change in assets and liabilities:					
Accounts receivable	(40,585)	(1,815)	(4,725)	(4,262)	(51,387)
Inventory	-	-	-	19,340	19,340
Accounts payable	(33,328)	4,227	1,375	37,218	9,492
Accrued expenses	(5,770)	(3,194)	(3,965)	(51,519)	(64,448)
Deposits	4,405	-	-	-	4,405
Deferred revenue	-	-	-	5,362	5,362
Total adjustments	22,764	225,090	11,316	108,479	367,649
Net cash provided by operating activities	\$ <u>207,490</u>	<u>251,357</u>	<u>36,029</u>	<u>82,291</u>	<u>577,167</u>

The accompanying notes are an integral  
part of these financial statements

CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 1 - Summary of Significant Accounting Policies

The City of Smithfield, Utah (the City), operates as an incorporated governmental entity within the State of Utah. The City operates under the Council-Mayor form of government and provides the following services: public safety (police and fire), streets and public improvements, parks and recreation, library and general administrative services. In addition, the City owns and operates a water system, and a sewer system, a storm water system and a golf course.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

**Financial Reporting Entity**

The City's basic financial statements include the accounts of all City operations. The accounting policies of the City conform to generally accepted accounting principles.

The City has created the Smithfield Redevelopment Agency (RDA) and this entity has been determined to be a blended component unit of the City. The accounts of this entity have been appropriately blended into the City's financial statements in accordance with GAAP.

The City has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective government board. The City participates in the Cache Valley Transit District (CVTD) and the Cache Metropolitan Planning Organization (CMPO), which are separate legal entities which are not controlled or dependent upon the City. However, the City has imposed a  $\frac{1}{4}$  of 1% sales tax to fund the CVTD. The Utah State Auditor's Office has determined that the sales tax is in effect collected by the CVTD and that the related revenue and expenditures should be excluded from these financial statements.

CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

**Basic Financial Statements - Government-Wide Statements**

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's public safety, streets and public improvements, parks and recreation, library and general administrative services are classified as governmental activities. The City's water, sewer and storm sewer water and golf services are classified as business-type activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are (a) presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

Governmental activities are usually financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (general, public safety, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants.

Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property or sales taxes, intergovernmental revenues, interest income, etc.). The City does not allocate indirect costs.

These government-wide statements focus more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

**Basic Financial Statements – Fund Statements**

The City's accounting system is organized on a fund basis. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the government establishes for accountability purposes in accordance with statutes, laws, regulations, restrictions, or specific purposes. Separate financial statements are provided for governmental funds and proprietary funds. The emphasis of fund financial statements is on major individual funds, as defined by GASB Statement No. 34, with each displayed as a separate column. All remaining governmental and proprietary funds are aggregated and reported as non-major funds in their respective fund financial statements.

The following fund types are used by the City:

*Governmental Funds*

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the major governmental funds of the City.

- **The General Fund** is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- **RDA** - This fund accounts for the operations of this blended component unit. The RDA builds infrastructure within City limits, promotes economic development and is entitled to collect incremental property taxes on the property within the boundaries of the RDA.
- **The Recreation Fund** is used to account for the fees collected by and the expenses related to the operations of the recreation center.
- **The Capital Improvements Fund** is used to accumulate resources for future capital projects or large asset purchases.
- **The Debt Service Fund** is used to hold resources for future debt payments and account for debt service payments.

CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

*Proprietary Funds*

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition, such as investment earnings, are reported as non-operating.

- **Enterprise funds** are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is (a) financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

The City's major enterprise funds consist of the following:

**Water Fund** - This fund accounts for the water services provided to City residents.

**Sewer Fund** - This fund accounts for the sewer services provided to City residents.

**Storm Sewer Fund** - The fund accounts for the operations of the City's storm water drainage systems.

**Golf Fund** - The fund accounts for the operations of the Birch Creek Golf Course.

**Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

*Accrual*

Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

*Modified Accrual*

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service and compensated absences expenditures are recorded only when payment is due.

**Financial Statement Amounts**

*Cash and cash equivalents*

For the purpose of the Statement of Net Assets, the term "cash and cash equivalents" includes all demand deposit accounts, savings accounts, or other short-term, highly liquid investments. For the purposes of the Statement of Cash Flows, the enterprise funds consider all highly liquid investments (including restricted assets) with original maturities of three months or less to be cash equivalents.

*Interfund Receivables and Payables*

During the course of operations, transactions sometimes occur between individual funds that may result in amounts owed between funds. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

*Accounts Receivable and Due From Other Governments*

Receivables consist of all revenues earned at year-end but received after year-end. Allowances for uncollectible accounts are based upon historical trends. Receivable balances for the governmental activities include sales taxes, franchise taxes, property taxes, garbage collection fees, and other fees. Business-type activities report receivables for utility service fees.

*Notes Receivable*

The City's notes receivable relate to loans made by the RDA for improvements within the RDA. In the fund financial statement, new loans are recorded as expenditures and notes receivable and deferred revenue are recorded on the Balance Sheet. Principal and interest payments on the notes receivable are recorded as revenue and the corresponding note receivable and deferred revenue are reduced. In the government-wide financial statements, new loans are recorded as notes receivable and principle payments are recorded as reductions to the notes receivable.

*Inventory*

Inventory in the golf fund is recorded at the lower of cost or market (first in, first out method).

*Capital Assets*

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical costs. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs for repairs and maintenance are expensed as incurred.

Depreciation on all depreciable assets has been provided over the estimated useful lives using the straight line method. The ranges of estimated useful lives are as follows:

Buildings and improvements	7 to 40 years
Infrastructure	25 years
Furniture and equipment	3 to 20 years

In the governmental fund financial statements, the acquisition or construction of capital assets is accounted for as capital outlay expenditures.

CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

*Capitalized Interest*

The City capitalizes net interest costs as part of the cost of construction for proprietary capital projects when material.

*Deferred Revenues*

In the government-wide statements and the proprietary fund statements, deferred revenue is recognized when cash or other assets are received or recognized prior to being earned. In the governmental fund statements, deferred revenue is recorded when revenue is either unearned or unavailable.

*Compensated Absences*

The City's policies regarding vacation time permit employees to accumulate unused vacation leave. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds do not report a liability for compensated absences while proprietary funds report the liability as it is incurred. Compensated absences related to governmental activities are usually liquidated by the General Fund. In the government-wide financial statements, the liability for governmental activities compensated absences is included in long-term liabilities.

*Long-term Debt*

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide financial statements. The long-term debt consists of bonds payable, capital leases payable, notes payable, and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund long-term debt is the same in the fund statements as it is in the government-wide statements.



CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

*Equity Classifications*

Equity in the government-wide financial statements is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of these assets.
- Restricted net assets - Consists of net assets with constraints placed on their use whether by 1) external groups such as creditors, grantors or laws and regulations of other governments; or 2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Governmental fund equity is classified as fund balance in the fund financial statements. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide financial statements.

*Revenues*

Property taxes, franchise taxes, licenses, fees-in-lieu of taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Property taxes and fees-in-lieu of taxes associated with future periods are deferred. All other revenue items are considered to be measurable and available only when the City receives cash. Grants are usually reimbursable grants and are thus recognized as revenue at the time the expenditures are made.

Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB Statement No. 33. In addition, other revenues that do not result from providing services are reported as non-operating revenues.

*Expenses/Expenditures*

When an expense/expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the City's general policy to use restricted resources first.

For proprietary fund financial statements, operating expenses are those that result from providing services to customers.

CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

*Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual amounts could differ from these estimates.

**Property Tax Calendar**

Cache County assesses all taxable property other than centrally assessed property, which is assessed through the State, by May 22 of each year. The City must adopt a final tax rate prior to June 22, which is then submitted to the State for approval. Property taxes are due on November 30. Delinquent taxes are subject to a penalty of 2% or \$10.00, whichever is greater. After January 16 of the following year, delinquent taxes and penalties bear interest at 6% above the federal discount rate from January 1 until paid.

Note 2 – Deposits and Investments

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State, and review the rules adopted by the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The City follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 2 – Deposits and Investments (continued)

At June 30, 2006, the City's deposits and investments consisted of the following:

<u>Financial Statement Description</u>	<u>Deposits</u>	<u>Investments</u>	<u>Cash</u>	<u>Total</u>
Pooled cash and cash equivalents:				
Cash-on-hand	\$ -	-	450	450
Demand deposits	276,150	-	-	276,150
Public Treasurer's Investment Pool	-	<u>3,314,990</u>	-	<u>3,314,990</u>
Total pooled cash and cash equivalents	\$ <u>276,150</u>	<u>3,314,990</u>	<u>450</u>	<u>3,591,590</u>
Cash and cash equivalents:				
Cash-on-hand	\$ -	-	1,050	1,050
Demand deposits	612,515	-	-	612,515
Public Treasurer's Investment Pool	-	<u>1,491,238</u>	-	<u>1,491,238</u>
Total cash and cash equivalents	\$ <u>612,515</u>	<u>1,491,238</u>	<u>1,050</u>	<u>2,104,803</u>
Restricted cash and cash equivalents:				
Demand deposits	\$ 68,654	-	-	68,654
Public Treasurer's Investment Pool	-	<u>98,818</u>	-	<u>98,816</u>
Total restricted cash and cash equivalents	\$ <u>68,654</u>	<u>98,818</u>	-	<u>167,472</u>
Total all deposits and investments	\$ <u>957,319</u>	<u>4,905,046</u>	<u>1,500</u>	<u>5,863,865</u>

**Deposits**

*Custodial Credit Risk*

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. The City does not have a formal deposit policy for custodial credit risk. As of June 30, 2006, \$866,136 of the City's bank balances of \$1,034,790 was uninsured and uncollateralized.

**Investments**

The Money Management Act defines the types of securities authorized as appropriate investments for the City and the conditions for making investments transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with the issuers of investment securities.

CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 2 – Deposits and Investments (continued)

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as “first tier” by two nationally recognized statistical rating organizations, one of which must be Moody’s Investor Services or Standard & Poor’s; bankers’ acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated “A” or higher, or the equivalent of “A” or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer’s Investment Fund.

The Utah State Treasurer’s Office operates the Public Treasurers’ Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, Utah Code Annotated, 1953, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionately in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant’s average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2006, all investments held by the City are in the PTIF, which has a maturity of less than 1 year.

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City’s policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State’s Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all City investments in commercial paper, bankers’ acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 2 – Deposits and Investments (continued)

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for reducing exposure to credit risk is to comply with the State's Money Management Act as previously discussed. At June 30, 2006, all investments held by the City are in the PTIF which is unrated.

*Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's policy for reducing this risk is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

*Custodial Credit Risk*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's policy for custodial risk is to use the PTIF whenever possible. As of June 30, 2006, all of the City's investments were in the PTIF.

CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 3 - Accounts Receivable and Due From Other Governments

The City's due from other governments and accounts receivable at June 30, 2006, consist of the following:

Due from other governments:

Governmental activities:

General fund:

Property taxes	\$ 428,707
Class "C" roads	62,184
Sales tax	176,435
RAPZ tax	49,191
Municipal telecommunication taxes	17,059
Cache County EMS	30,067
Other	<u>1,529</u>

Total general fund 765,172

Redevelopment Agency fund:

Property taxes	<u>191,000</u>
----------------	----------------

Total governmental activities \$ 956,172

Accounts receivable:

Governmental activities:

General fund:

Communication Center (911 fees)	\$ 6,155
Garbage	48,046
Energy taxes	21,355
Other	<u>2,085</u>

Total governmental activities \$ 77,641

Business-type activities:

Water services and fees	\$ 92,711
Sewer services and fees	69,055
Storm sewer services and fees	11,597
Golf sales	<u>4,262</u>

Total business-type activities \$ 177,625

CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 4 – Capital Assets

Capital asset changes occurring for the year ended June 30, 2006, are as follows:

	Balance July 1, <u>2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2006</u>
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 702,510	-	-	702,510
Infrastructure land	<u>2,556,851</u>	<u>445,377</u>	<u>-</u>	<u>3,002,228</u>
Total capital assets not being depreciated	<u>3,259,361</u>	<u>445,377</u>	<u>-</u>	<u>3,704,738</u>
Capital assets being depreciated:				
Buildings and improvements	4,181,990	196,442	-	4,378,432
Infrastructure	6,737,859	124,766	-	6,862,625
Furniture and equipment	<u>1,400,190</u>	<u>74,578</u>	<u>(52,641)</u>	<u>1,422,127</u>
Total capital assets being depreciated	<u>12,320,039</u>	<u>395,786</u>	<u>(52,641)</u>	<u>12,663,184</u>
Accumulated depreciation for:				
Buildings and improvements	(837,083)	(121,925)	-	(959,008)
Infrastructure	(2,872,256)	(220,272)	-	(3,092,528)
Furniture and equipment	<u>(948,519)</u>	<u>(112,717)</u>	<u>52,641</u>	<u>(1,008,595)</u>
Total accumulated depreciation	<u>(4,657,858)</u>	<u>(454,914)</u>	<u>52,641</u>	<u>(5,060,131)</u>
Total capital assets being depreciated, net	<u>7,662,181</u>	<u>(59,128)</u>	<u>-</u>	<u>7,606,053</u>
Total governmental activities capital assets, net	\$ <u>10,921,542</u>	<u>386,249</u>	<u>-</u>	<u>11,307,791</u>

CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 4 – Capital Assets (continued)

Capital asset changes occurring for the year ended June 30, 2006, are as follows:

	Balance July 1, <u>2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2006</u>
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	\$ 371,152	-	-	371,152
Construction in progress	<u>-</u>	<u>73,752</u>	<u>-</u>	<u>73,752</u>
Total capital assets not being depreciated	<u>371,152</u>	<u>73,752</u>	<u>-</u>	<u>444,904</u>
Capital assets being depreciated:				
Buildings and improvements	14,514,254	184,924	-	14,699,178
Furniture and equipment	<u>1,242,603</u>	<u>44,539</u>	<u>-</u>	<u>1,287,142</u>
Total capital assets being depreciated	<u>15,756,857</u>	<u>229,463</u>	<u>-</u>	<u>15,986,320</u>
Accumulated depreciation for:				
Buildings and improvements	(5,365,989)	(368,515)	-	(5,734,504)
Furniture and equipment	<u>(917,473)</u>	<u>(76,370)</u>	<u>-</u>	<u>(993,843)</u>
Total accumulated depreciation	<u>(6,283,462)</u>	<u>(444,885)</u>	<u>-</u>	<u>(6,728,347)</u>
Total capital assets being depreciated, net	<u>9,473,395</u>	<u>(215,422)</u>	<u>-</u>	<u>9,257,973</u>
Total business-type activities capital assets, net	\$ <u>9,844,547</u>	<u>(141,670)</u>	<u>-</u>	<u>9,702,877</u>



CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 5 - Refundable Deposits

The City of Smithfield requires a security deposit for utility services. The deposit reported as a liability in the water fund covers garbage pickup, water charges, and sewer services. The City held security deposits in the water utility fund of \$50,251 at June 30, 2006.

The City also requires that developers provide a guarantee deposit to insure that improvements are completed. The deposit is refunded after all improvements have been made. The City held contractor deposits in the General Fund of \$167,470 as of June 30, 2006. In addition, the City also held \$122,600 in other deposits.

Note 6 - Interfund Balances/Transfers

Interfund balances as of June 30, 2006 consisted of the following:

Due To/From Pooled Cash and Cash Equivalents: At year-end, the Golf Fund owed \$8,894 to the Sewer Fund.

During the year, the City made the following interfund transfers:

<u>Purpose</u>	<u>Amount</u>	<u>Transfer in</u>	<u>Transfer out</u>
Debt payments	\$ 43,904	Debt Service	Capital Projects
Operations	78,200	Recreation	General
Debt payments	197,050	Debt Service	General
Fund future projects	454,860	Capital Projects	General

CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 7 – Long-term Liabilities

Long-term liability activity for fiscal year ending June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One year
<u>Governmental activities</u>					
Bonds payable	\$ 1,975,000	-	(105,000)	1,870,000	110,000
Contract payable	67,794	-	(14,323)	53,471	14,000
Compensated absences	64,510	67,907	(57,309)	75,108	75,108
Capital leases payable	<u>487,718</u>	<u>-</u>	<u>(39,393)</u>	<u>448,325</u>	<u>39,293</u>
Total governmental long-term liabilities	\$ <u>2,595,022</u>	<u>67,907</u>	<u>(216,025)</u>	<u>2,446,904</u>	<u>238,401</u>
<u>Business-type activities</u>					
Bonds payable	\$ 1,333,000	-	(267,000)	1,066,000	266,000
Capital leases payable	<u>792,728</u>	<u>-</u>	<u>(30,184)</u>	<u>762,544</u>	<u>31,140</u>
Total business-type long-term liabilities	\$ <u>2,125,728</u>	<u>-</u>	<u>(297,184)</u>	<u>1,828,544</u>	<u>297,140</u>

*Governmental Activities*

The City has the following long-term debt obligations pertaining to governmental activities:

**Bonds payable:**

\$2,500,000 General Obligation Bonds, Series 1999.

Issued through Zions First National Bank for the construction of recreational facilities. Due in annual installments ranging from \$75,000 to \$130,000 through February, 2011, \$425,000 due February, 2014, and \$845,000 due February, 2019, including interest ranging from 4.2% to 5%.

\$ 1,870,000

CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 7 – Long-term Liabilities (continued)

Capital leases payable:

\$507,000 lease-purchase agreement, payable to Zions First National Bank for a fire station, payable in semi-annual installments including interest ranging from 3.45% to 3.70%, secured by the fire station. Matures November, 2017. \$ 413,954

\$51,717 lease-purchase agreement, payable to Toro Financing for grounds equipment, payable in annual installments, including interest at 4.7% secured by the grounds equipment. Matures August, 2009. 34,371

Total capital leases payable \$ 448,325

Contracts payable:

Commitment of RDA tax increment collections to Market Development, Inc. \$ 53,471

The annual requirements to amortize the bonds payable and contract payable of the governmental activities were as follows:

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 124,000	86,300	210,300
2008	129,000	80,800	209,800
2009	134,000	75,223	209,223
2010	136,471	70,183	206,654
2011	130,000	64,932	194,932
2012-2016	740,000	233,852	973,852
2017-2019	<u>530,000</u>	<u>51,600</u>	<u>581,600</u>
Totals	\$ <u>1,923,471</u>	<u>662,890</u>	<u>2,586,361</u>

CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 7 – Long-term Liabilities (continued)

The following is a schedule of the future minimum lease payments under the governmental activities capital leases and the present value of the net minimum lease payments at June 30, 2006:

Year Ending <u>June 30</u>	
2007	\$ 55,484
2008	55,484
2009	55,484
2010	47,495
2011	43,904
2012-2016	219,522
2017-2018	<u>67,707</u>
Net minimum lease payments	545,080
Less amount representing interest	<u>(96,755)</u>
Present value of net minimum lease payments	\$ <u>448,325</u>

At June 30, 2006, the cost of assets financed by capital leases recorded in governmental activities was \$656,152 and the accumulated depreciation was \$119,702.

During fiscal year 1999, the City issued \$2,500,000 of general obligation bonds for the purpose of constructing recreational facilities jointly with Cache County School District. Interest is due semi-annually on August 1. The bonds have a mandatory sinking requirement to accumulate adequate funds to make bond payments of \$425,000 in February, 2014 and \$845,000 in February, 2019. The mandatory sinking fund payments range from \$135,000 to \$185,000.

The City has entered into a capital lease agreement with Zion's Bank to provide financing for the construction of assets. The agreement requires that the City lease assets to Zions Bank for \$1 annually. Zions Bank subleases the assets to the City with an initial interest rate of 3.70% and interest adjustment dates in November 2007 and 2012, which are at an interest factor of 95% of the bank's index rate. The City borrowed the maximum amount allowed per the agreement of \$507,000, which will be repaid in equal installments over the maximum duration of the agreement. The agreement can be renewed annually but has a maximum duration of fifteen years.

CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 7 – Long-term Liabilities (continued)

The Smithfield Redevelopment Agency (the RDA) has entered into a contractual agreement with Market Development, Inc. whereby the RDA will pay \$285,000 to the developer for improvements constructed on a site within the City's redevelopment area. The RDA is obligated to make annual payments equal to seventy percent (70%) of the tax increment money received by the RDA from the developer's building and improvements. The tax increment subsidy payments are secured solely by a pledge of the tax increment moneys anticipated from improvements constructed by the developer. The developer will have no other recourse to the RDA or the City for payment of the tax increment subsidy other than this pledge. Under the terms of the contract, payments will continue until the principal amount of \$285,000 is repaid or to the end of the fifteenth (15<sup>th</sup>) tax increment year (2011), whichever comes first. Payment is due to the developer within 30 days following receipt of these funds from the Cache County Treasurer. No interest will accrue or be paid to the developer.

The City typically transfers money from the General Fund to the Debt Service Fund to liquidate governmental activities long-term liabilities.

*Business-type Activities*

The City has the following long-term debt agreements pertaining to business-type activities:

**Bonds payable:**

\$1,700,000, General Obligation Sewer Bond, Series 1988A. Issued and held by the State of Utah for construction of the sewer system. Due in annual installments of \$85,000, matures August 15, 2009. Non-interest bearing.	\$ 340,000
--	------------

\$3,630,300, General Obligation Sewer Bond Series 1988B. Issued and held by the State of Utah for construction of the sewer system. Due in annual installments ranging from \$181,000 to \$182,000, matures August 15, 2009. Non-interest bearing.	<u>726,000</u>
--	----------------

Total bonds payable	\$ <u>1,066,000</u>
---------------------	---------------------

**Capital leases payable:**

\$837,000, lease-purchase agreement payable to Zions First National Bank, due in semi-annual installments of \$29,887, including interest ranging from 3.64% to 4.06%. Secured by a golf club house. Matures in November, 2023.	\$ <u>762,544</u>
--	-------------------

CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 7 – Long-term Liabilities (continued)

The annual requirements to amortize all business-type activity bonds payable as of June 30, 2006 are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>
2007	\$ 266,000
2008	267,000
2009	266,000
2010	<u>267,000</u>
Totals	\$ <u>1,066,000</u>

The following is a schedule of the future minimum lease payments under the business-type capital leases and the present value of the net minimum lease payments at June 30, 2006:

Year Ending <u>June 30</u>	
2007	\$ 59,774
2008	59,774
2009	59,773
2010	59,773
2011	59,773
2012-2016	298,866
2017-2021	298,866
2022-2024	<u>147,564</u>
Net minimum lease payments	1,104,163
Less amount representing interest	<u>(281,619)</u>
Present value of net minimum lease payments	\$ <u>762,544</u>

The City has entered into capital lease agreement with Zions Bank to provide financing for the construction a new golf club house. The agreement requires that the City lease assets to Zions Bank for \$1 annually. Zions Bank subleases the assets to the City with an initial interest rate of 4.06% and interest adjustment dates in November 2013 and 2018, which are at an interest factor of 95% of the bank's index rate. The City borrowed the maximum amount allowed per the agreement of \$837,000, which will be repaid in equal installments over the maximum duration of the agreement. The agreement can be renewed annually but has a maximum duration of twenty years.

## June 30, 2006

**Note 7 – Long-term Liabilities (continued)**

At June, 30, 2006, the cost of the asset financed by this capital lease recorded in business-type activities was \$1,200,000 and the accumulated depreciation was \$82,500.

### Note 8 - Reserved Fund Equity

Restricted net assets and reserved fund equity represent moneys required to be maintained to satisfy third party agreements or legal requirements. The following schedule details restricted net assets and reserved fund equity at June 30, 2006:

## Governmental Activities

## General Fund

Road maintenance and construction (Class “C”)	\$ 226,682
Cemetery capital improvement	76,715
Parks	29,155
Library memorial	1,302
Law enforcement (State liquor law funding)	5,269
Firemen association	2,136

Total reserved fund balance	\$ 341,259
-----------------------------	------------

Redevelopment Agency

Unreserved fund balance	\$ <u>978,343</u>
Total restricted net assets	\$ <u>1,319,602</u>

### Note 9 - Retirement Plans

## Defined Benefit Plans

The City participates in the Utah Retirement Systems which sponsors multiple employer, cost sharing defined benefit pension plans. Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 9 - Retirement Plans (continued)

The Utah Retirement Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Utah Retirement Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System. A copy of this report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

During 2006, 2005 and 2004, the City was required to contribute 11.09%, 11.09% and 9.62% respectively, of the plan members' annual covered salary in the Local Governmental Noncontributory Retirement System. During 2006, 2005 and 2004, the City was required to contribute 19.34%, 19.08% and 16.24%, respectively, of the plan members' annual covered salary in the Public Safety Noncontributory Retirement System. During 2006, 2005 and 2004, the City participated in the Firefighters Contributory Retirement System which required employees to contribute 8.61%, 8.61% and 8.21%, respectively, of their covered salary. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Contributions to the retirement systems for the years ending June 30, 2006, 2005 and 2004 were as follows:

*Local Government Noncontributory*

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Salary subject to retirement contributions	\$1,096,212	937,558	941,999
Employer contributions	121,570	103,975	90,620

*Public Safety Noncontributory*

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Salary subject to retirement contributions	\$ 252,522	245,028	229,911
Employer contributions	48,838	46,751	37,337

*Firefighters Contributory - Division A*

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Salary subject to retirement contributions	\$ 114,276	66,816	26,121
Employer paid for employee contributions	9,839	5,753	2,145



CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 9 - Retirement Plans (continued)

All contributions by Smithfield City were paid by the due dates or within 30 days thereafter and were equal to the required contributions for each year.

The Utah State Retirement Board of the Utah Retirement Systems provides the City with the necessary retirement disclosures for their report.

**Defined Contribution Plans**

The City participates in the Utah Retirement Systems' qualified cash or deferred compensation plan under section 401(k) of the Internal Revenue Code. Under the plan, eligible employees may elect to defer a portion of their salary, subject to Internal Revenue Service limits. During the 2006, 2005 and 2004 fiscal years, employees contributed \$29,402, \$19,258 and \$18,716, respectively to the plan. For fiscal years 2006, 2005 and 2004, the City elected not to make contributions to the Plan on behalf of participating employees.

Note 10 - Redevelopment Agency

In accordance with Section 17B-4-1305, Utah Code Annotated, all municipalities having established Redevelopment Agency's are required to disclose the following revenues and expenditures associated with the RDA.

Tax increment collected	\$ 165,000
Balance of debt - Market Development, Inc.	53,471
Expenditures:	
Site improvements	12,697
Tax increment payments	14,323

Note 11 - Risk Management

Smithfield City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters. The City participates in the Utah Local Government Insurance Trust (the Trust), a public entity risk pool to manage its risk of loss. The City pays an annual premium to the trust for its general insurance coverage. The Trust was created as a self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of one million dollars for each insured event. There have been no claim settlements that exceeded the City's insurance coverage for the past three years.

CITY OF SMITHFIELD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

Note 12 - Subsequent Events

After year-end, the City awarded bids to build a new storage tank, a pump station and distribution lines for approximately \$1,800,000. In order to finance this new construction, the City authorized the issuance of \$1,860,000 in Water Revenue Bonds.

Subsequent to year-end, the Redevelopment Agency (RDA) agreed to purchase a house for approximately \$165,000. The RDA planned to use existing fund balance as the source of the funds for this purchase.

## **Required Supplementary Information**

CITY OF SMITHFIELD  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>				
Taxes	\$ 1,704,550	1,857,050	1,961,805	104,755
Licenses and permits	156,000	208,000	217,042	9,042
Intergovernmental	664,875	635,903	598,610	(37,293)
Charges for services	625,670	644,670	713,370	68,700
Fines and forfeitures	190,000	194,000	196,741	2,741
Library	6,200	11,989	11,774	(215)
Miscellaneous	34,980	54,017	74,040	20,023
<b>Total revenues</b>	<u>3,382,275</u>	<u>3,605,629</u>	<u>3,773,382</u>	<u>167,753</u>
<b>Expenditures:</b>				
General government	954,740	1,029,119	939,180	89,939
Public safety	787,203	825,303	803,380	21,923
Streets and public improvements	887,827	939,827	793,199	146,628
Parks, recreation and public improvements	279,660	430,710	325,540	105,170
Library	125,885	131,074	118,681	12,393
<b>Total expenditures</b>	<u>3,035,315</u>	<u>3,356,033</u>	<u>2,979,980</u>	<u>376,053</u>
<b>Excess of revenues over expenditures</b>	<u>346,960</u>	<u>249,596</u>	<u>793,402</u>	<u>543,806</u>
<b>Other financing sources (uses):</b>				
Transfers in (out):				
Recreation fund	(115,205)	(115,205)	(78,200)	37,005
Debt service fund	(197,050)	(197,050)	(197,050)	-
Capital projects fund	-	(454,860)	(454,860)	-
<b>Total other financing sources (uses)</b>	<u>(312,255)</u>	<u>(767,115)</u>	<u>(730,110)</u>	<u>37,005</u>
<b>Net change to fund balance</b>	<u>\$ 34,705</u>	<u>(517,519)</u>	<u>63,292</u>	<u>580,811</u>
<b>Fund balance - beginning</b>			<u>773,714</u>	
<b>Fund balance - ending</b>	\$		<u>837,006</u>	

CITY OF SMITHFIELD  
REDEVELOPMENT AGENCY  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Taxes	\$ 165,000	165,000	165,000	-
Miscellaneous	15,085	15,085	42,611	27,526
Total revenues	<u>180,085</u>	<u>180,085</u>	<u>207,611</u>	<u>27,526</u>
Expenditures:				
Streets and public improvements	35,350	35,350	12,697	22,653
Debt service:				
Principal	<u>14,000</u>	<u>14,000</u>	<u>14,323</u>	<u>(323)</u>
Total expenditures	<u>49,350</u>	<u>49,350</u>	<u>27,020</u>	<u>22,330</u>
Excess of revenues over expenditures	\$ <u>130,735</u>	<u>130,735</u>	180,591	<u>49,856</u>
Fund balance - beginning			<u>797,752</u>	
Fund balance - ending	\$		<u>978,343</u>	

CITY OF SMITHFIELD  
RECREATION FUND  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Charges for services	\$ <u>244,000</u>	<u>266,100</u>	<u>294,363</u>	<u>28,263</u>
Total revenues	<u>244,000</u>	<u>266,100</u>	<u>294,363</u>	<u>28,263</u>
Expenditures:				
Parks and recreation	<u>359,205</u>	<u>381,305</u>	<u>381,803</u>	<u>(498)</u>
Total expenditures	<u>359,205</u>	<u>381,305</u>	<u>381,803</u>	<u>(498)</u>
Excess of revenues over expenditures	<u>(115,205)</u>	<u>(115,205)</u>	<u>(87,440)</u>	<u>27,765</u>
Other financing sources (uses):				
Transfers in	<u>115,205</u>	<u>115,205</u>	<u>78,200</u>	<u>(37,005)</u>
Net change in fund balance	\$ <u>-</u>	<u>-</u>	<u>(9,240)</u>	<u>(9,240)</u>
Fund balance - beginning			<u>10,811</u>	
Fund balance - ending	\$		<u>1,571</u>	

CITY OF SMITHFIELD  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY REPORTING  
June 30, 2006

**Budget Presentation**

A Budgetary Comparison Schedule is presented for the General Fund and each major special revenue fund as required by generally accepted accounting principles (GAAP). Budgets for governmental funds are adopted on a legally enacted basis, which is consistent with GAAP.

Annual appropriated budgets are adopted for all governmental and business-type funds. All annual appropriations lapse at fiscal year end. Each fund adopts a "balanced budget" in accordance with State law. As allowed by State law, the City Council may authorize increases to or uses of unreserved fund balances. In the budget presentations, authorized increases to fund balance are shown as positive changes in fund balance and authorized decreases are shown as negative changes in fund balance.

**Budget Adoption and Monitoring**

On or before the first scheduled council meeting in May, all agencies of the City submit requests for appropriation to the City's financial officers so that a budget may be prepared. The budget is prepared by fund, function, and activity and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.

The proposed budget is presented to the City Council for review at the first scheduled meeting in May. The City Council holds public hearings and may add to, subtract from, or change appropriations, but may not change the form of the budget. The City financial officer must, within the revenues and reserves, estimate any changes in the budget as available or revenue estimates may be changed by an affirmative vote of a majority of the City Council. Within 30 days of adoption, the final budget must be submitted to the State Auditor. If there is no increase to the certified tax rate, a final tax rate is adopted by June 22, and adoption of budgets is done similarly.

State statute requires that City officers shall not incur expenditures or encumbrances in excess of total appropriations for any department in the budget as adopted or subsequently amended.

Only the Council at a properly advertised public hearing can make increases in total fund appropriations. The final budget information presented is after all approved amendments.

This page intentionally left blank



## **Supplementary Information**

CITY OF SMITHFIELD  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-  
BUDGET AND ACTUAL  
For The Year Ended June 30, 2006  
(With Comparative Totals For The Year Ended June 30, 2005)

	<u>2006</u>		
	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
	<u>Budget</u>		<u>Favorable</u>
			<u>(Unfavorable)</u>
			<u>June 30, 2005</u>
			<u>Actual</u>
Revenues:			
Taxes:			
General property taxes	\$ 408,550	425,592	17,042
Fees in lieu of property taxes	96,000	97,383	1,383
Sales and use taxes	888,500	932,953	44,453
Franchise taxes	464,000	505,877	41,877
Total taxes	<u>1,857,050</u>	<u>1,961,805</u>	<u>104,755</u>
Licenses and permits:			
Business licenses and permits	19,000	25,707	6,707
Non-business licenses and permits	189,000	191,335	2,335
Total licenses and permits	<u>208,000</u>	<u>217,042</u>	<u>9,042</u>
Intergovernmental:			
Class "C" roads	300,000	293,648	(6,352)
Law enforcement block grant	8,375	-	(8,375)
Fire reimbursements	189,700	192,621	2,921
Parks and recreation grants	45,028	96,415	51,387
Other grants	88,000	10,014	(77,986)
Liquor allotment	4,800	5,912	1,112
Total intergovernmental	<u>635,903</u>	<u>598,610</u>	<u>(37,293)</u>
Charges for services:			
Sanitation	455,000	496,029	41,029
Central dispatch fee	64,000	64,463	463
Cemetery	30,500	37,629	7,129
Park impact fees	63,000	83,300	20,300
Other	32,170	31,949	(221)
Total charges for services	<u>644,670</u>	<u>713,370</u>	<u>68,700</u>
Fines and forfeitures	<u>194,000</u>	<u>196,741</u>	<u>2,741</u>
Library:			
Grants	10,289	10,334	45
Other	1,700	1,440	(260)
Total library	<u>11,989</u>	<u>11,774</u>	<u>(215)</u>

(continued)

(continued)

CITY OF SMITHFIELD  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-  
BUDGET AND ACTUAL  
For The Year Ended June 30, 2006  
(With Comparative Totals For The Year Ended June 30, 2005)

	2006		Variance	June 30, 2005
	Final	Actual	Favorable (Unfavorable)	Actual
Miscellaneous revenues:				
Interest	34,650	54,509	19,859	29,658
Community activities	13,730	11,281	(2,449)	15,403
Other	5,637	8,250	2,613	5,551
Total miscellaneous	54,017	74,040	20,023	50,612
Total revenues	3,605,629	3,773,382	167,753	3,443,806
Expenditures:				
General government:				
Legislative	639,665	574,302	65,363	578,895
Youth council	5,175	5,107	68	4,698
Municipal court	79,887	67,365	12,522	65,735
Administrative	72,975	69,616	3,359	68,406
Attorney	43,300	38,962	4,338	26,288
Non-departmental	102,750	101,419	1,331	93,533
Buildings	66,100	64,260	1,840	49,254
Elections	6,667	6,659	8	61
Planning and zoning	12,600	11,490	1,110	37,500
Total general government	1,029,119	939,180	89,939	924,370
Public safety:				
Law enforcement	543,691	530,683	13,008	474,789
Fire protection	250,187	243,505	6,682	233,422
Emergency services	2,900	2,850	50	-
Building inspection	6,125	5,402	723	4,532
Animal control	22,400	20,940	1,460	21,165
Total public safety	825,303	803,380	21,923	733,908
Streets and public improvements:				
Streets	145,000	136,203	8,797	113,619
Public works	10,705	8,507	2,198	8,797
Class C roads	288,622	156,966	131,656	267,028
Sanitation	480,000	478,320	1,680	444,964
Shop and garage	15,500	13,203	2,297	17,385
Total streets and public improvements	939,827	793,199	146,628	851,793

(continued)

CITY OF SMITHFIELD  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-  
BUDGET AND ACTUAL  
For The Year Ended June 30, 2006  
(With Comparative Totals For The Year Ended June 30, 2005)

	2006		Variance	June 30, 2005
	Final	Actual	Favorable (Unfavorable)	Actual
Parks, recreation and public property:				
Parks	359,860	278,408	81,452	216,061
Health days/concerts in park	30,600	26,702	3,898	23,938
Senior citizen programs	9,300	8,868	432	9,962
Historical society	3,600	3,036	564	3,305
Cemetery	27,350	8,526	18,824	40,545
Total parks and recreation	<u>430,710</u>	<u>325,540</u>	<u>105,170</u>	<u>293,811</u>
Library:				
Other	131,074	118,681	12,393	110,222
Capital outlay	-	-	-	-
Total library	<u>131,074</u>	<u>118,681</u>	<u>12,393</u>	<u>110,222</u>
Total expenditures	<u>3,356,033</u>	<u>2,979,980</u>	<u>376,053</u>	<u>2,914,104</u>
Excess of revenues over expenditures	<u>249,596</u>	<u>793,402</u>	<u>543,806</u>	<u>529,702</u>
Other financing sources (uses):				
Proceeds from sale of assets	-	-	-	66,204
Insurance recovery	-	-	-	36,917
Transfers (out)/in:				
Recreation special revenue fund	(115,205)	(78,200)	37,005	(63,000)
Debt service	(197,050)	(197,050)	-	(197,300)
Capital projects fund	(454,860)	(454,860)	-	(320,000)
Total other financing sources (uses)	<u>(767,115)</u>	<u>(730,110)</u>	<u>37,005</u>	<u>(477,179)</u>
Net change to fund balance	\$ <u>(517,519)</u>	63,292	<u>580,811</u>	52,523
Adjustments from budget basis to GAAP basis:				
Proceeds from capital lease		-		51,717
Capital outlay - Parks		-		(51,717)
Net change to fund balance - GAAP basis		63,292		52,523
Fund balance - beginning		<u>773,714</u>		<u>721,191</u>
Fund balance - ending	\$	<u>837,006</u>		<u>773,714</u>

CITY OF SMITHFIELD  
DEBT SERVICE FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL  
 For The Year Ended June 30, 2006  
With Comparative Totals For The Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2005 Actual</u>
Revenues:				
\$	-	-	-	-
Total revenues	-	-	-	-
Expenditures:				
Principal	133,367	132,768	599	126,812
Interest	107,587	108,053	(466)	114,349
Total expenditures	240,954	240,821	133	241,161
Deficiency of revenue over expenditures	(240,954)	(240,821)	133	(241,161)
Other financing sources:				
Transfer from capital projects fund	43,904	43,904	-	43,904
Transfer from general fund	197,050	197,050	-	197,300
Total other financing sources	240,954	240,954	-	241,204
Net change in fund balance	\$ -	133	133	43

CITY OF SMITHFIELD  
WATER FUND  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL  
For The Year Ended June 30, 2006  
(With Comparative Totals For The Year Ended June 30, 2005)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2005 Actual</u>
Operating revenues:				
Services	\$ 520,000	566,191	46,191	485,963
Connection fees	9,100	24,341	15,241	14,790
Miscellaneous	3,100	5,653	2,553	6,293
Total operating revenues	<u>532,200</u>	<u>596,185</u>	<u>63,985</u>	<u>507,046</u>
Operating expenses:				
Salaries and benefits	195,927	213,518	(17,591)	186,621
Current expenses	<u>65,401</u>	<u>99,899</u>	<u>(34,498)</u>	<u>166,232</u>
Total operating expenses	<u>261,328</u>	<u>313,417</u>	<u>(52,089)</u>	<u>352,853</u>
Operating income (loss)	270,872	282,768	11,896	154,193
Non-operating income (expense):				
Impact fees	70,000	133,000	63,000	96,380
Interest income	<u>12,800</u>	<u>37,477</u>	<u>24,677</u>	<u>17,341</u>
Total non-operating income (expense)	<u>82,800</u>	<u>170,477</u>	<u>87,677</u>	<u>113,721</u>
Net income (loss) before capital expenses	353,672	453,245	99,573	267,914
Capital budget expenses:				
Equipment and improvements	<u>(244,525)</u>	<u>(244,525)</u>	<u>-</u>	<u>(261,975)</u>
Total capital budget expenses	<u>(244,525)</u>	<u>(244,525)</u>	<u>-</u>	<u>(261,975)</u>
Net income budget basis	\$ <u>109,147</u>	208,720	<u>99,573</u>	5,939
Adjustments from budget basis to GAAP basis:				
Depreciation		(98,042)		(113,461)
Equipment and improvements		244,525		261,975
Contributed equipment and improvements		<u>-</u>		<u>92,566</u>
Net income GAAP basis	\$	<u>355,203</u>		<u>247,019</u>

CITY OF SMITHFIELD  
SEWER FUND  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL  
For The Year Ended June 30, 2006  
(With Comparative Totals For The Year Ended June 30, 2005)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2005 Actual</u>
Operating revenues:				
Services	\$ 695,000	720,361	25,361	697,305
Connection fees	2,000	3,400	1,400	1,800
Miscellaneous	100	-	(100)	-
Total operating revenues	<u>697,100</u>	<u>723,761</u>	<u>26,661</u>	<u>699,105</u>
Operating expenses:				
Salaries and benefits	167,988	187,394	(19,406)	159,114
Current expenses	<u>267,190</u>	<u>284,228</u>	<u>(17,038)</u>	<u>262,038</u>
Total operating expenses	<u>435,178</u>	<u>471,622</u>	<u>(36,444)</u>	<u>421,152</u>
Operating income	261,922	252,139	(9,783)	277,953
Non-operating income (expense):				
Impact fees	43,000	56,380	13,380	48,060
Interest income	<u>15,600</u>	<u>36,166</u>	<u>20,566</u>	<u>20,808</u>
Total non-operating income (expense)	<u>58,600</u>	<u>92,546</u>	<u>33,946</u>	<u>68,868</u>
Net income before capital income (expenses)	320,522	344,685	24,163	346,821
Capital budget income (expenses):				
Bond payments	(267,000)	(267,000)	-	(266,000)
Equipment and improvements	<u>(15,500)</u>	<u>(6,647)</u>	<u>8,853</u>	<u>(48,940)</u>
Total capital budget income (expenses)	<u>(282,500)</u>	<u>(273,647)</u>	<u>8,853</u>	<u>(314,940)</u>
Net income (loss) budget basis	\$ <u>38,022</u>	71,038	<u>33,016</u>	31,881
Adjustments from budget basis to GAAP basis:				
Depreciation		(225,872)		(225,810)
Equipment and improvements		6,647		48,940
Contributed equipment and improvements		-		146,387
Bond principal payments		<u>267,000</u>		<u>266,000</u>
Net income GAAP basis	\$	<u>118,813</u>		<u>267,398</u>

CITY OF SMITHFIELD  
STORM SEWER FUND  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL  
For The Year Ended June 30, 2006  
(With Comparative Totals For The Year Ended June 30, 2005)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2005 Actual</u>
Operating revenues:				
Services	\$ 111,500	124,937	13,437	72,855
Miscellaneous	100	-	(100)	-
Total operating revenues	<u>111,600</u>	<u>124,937</u>	<u>13,337</u>	<u>72,855</u>
Operating expenses:				
Salaries and benefits	77,225	78,729	(1,504)	45,026
Current expenses	<u>7,300</u>	<u>2,864</u>	<u>4,436</u>	<u>7,261</u>
Total operating expenses	<u>84,525</u>	<u>81,593</u>	<u>2,932</u>	<u>52,287</u>
Operating income	27,075	43,344	16,269	20,568
Non-operating income (expense):				
Interest income	<u>200</u>	<u>1,320</u>	<u>1,120</u>	<u>614</u>
Total non-operating income (expense)	<u>200</u>	<u>1,320</u>	<u>1,120</u>	<u>614</u>
Net income before capital income ( expenses)	27,275	44,664	17,389	21,182
Capital budget income (expenses):				
Equipment and improvements	<u>(15,400)</u>	<u>(20,798)</u>	<u>(5,398)</u>	<u>-</u>
Total capital budget income (expenses)	<u>(15,400)</u>	<u>(20,798)</u>	<u>(5,398)</u>	<u>-</u>
Net income (loss) budget basis	\$ <u>11,875</u>	23,866	<u>11,991</u>	21,182
Adjustments from budget basis to GAAP basis:				
Depreciation		(18,631)		(18,372)
Contributed equipment and improvements		-		110,089
Equipment and improvements		<u>20,798</u>		<u>-</u>
Net income GAAP basis	\$	<u>26,033</u>		<u>112,899</u>



CITY OF SMITHFIELD  
GOLF FUND  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL  
For The Year Ended June 30, 2006  
(With Comparative Totals For The Year Ended June 30, 2005)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2005 Actual</u>
Operating revenues:				
Green fees	\$ 400,000	483,487	83,487	436,996
Driving range and cart rentals	226,500	236,830	10,330	212,459
Pro shop and food sales	192,000	223,860	31,860	216,703
Golf tournaments and clinics	5,000	6,622	1,622	7,219
Miscellaneous	1,900	11,391	9,491	2,032
Total operating revenues	<u>825,400</u>	<u>962,190</u>	<u>136,790</u>	<u>875,409</u>
Operating expenses:				
Salaries and benefits	465,715	467,907	(2,192)	440,890
Current expenses	<u>333,250</u>	<u>418,131</u>	<u>(84,881)</u>	<u>393,714</u>
Total operating expenses	<u>798,965</u>	<u>886,038</u>	<u>(87,073)</u>	<u>834,604</u>
Operating income	26,435	76,152	49,717	40,805
Non-operating income (expense):				
Interest expense	(29,860)	(29,989)	(129)	-
Interest income	<u>-</u>	<u>3,542</u>	<u>3,542</u>	<u>1,838</u>
Income before capital income (expenses)	<u>(3,425)</u>	<u>49,705</u>	<u>53,130</u>	<u>42,643</u>
Capital budget income (expenses):				
Payments on long-term debt	(29,913)	(30,183)	(270)	(61,424)
Proceeds from sale of assets	5,000	200	(4,800)	-
Equipment and improvements	<u>(68,000)</u>	<u>(31,245)</u>	<u>36,755</u>	<u>(39,994)</u>
Total capital budget income (expenses)	<u>(92,913)</u>	<u>(61,228)</u>	<u>31,685</u>	<u>(101,418)</u>
Net income (loss) budget basis	\$ <u>(96,338)</u>	(11,523)	<u>84,815</u>	(58,775)
Adjustments from budget basis to GAAP basis:				
Principal payments on long-term debt		30,183		30,332
Proceeds from long-term debt		-		-
Depreciation		(102,340)		(106,011)
Equipment and improvements		<u>31,245</u>		<u>39,994</u>
Net income (loss) GAAP basis	\$	<u>(52,435)</u>		<u>(94,460)</u>

SMITHFIELD CITY  
SUPPLEMENTAL IMPACT FEE  
INFORMATION  
June 30, 2006

Impact Fees Collected

The following schedule details the unspent impact fee funds by year in which they were received.

	<u>Park Impact Fees</u>	<u>Water Impact Fees</u>	<u>Sewer Impact Fees</u>
2006	<u>-</u>	<u>-</u>	<u>-</u>
Total unspent impact fees	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

At June 30, 2006, the City had expenditures that exceeded impact fee collections for all three types of impact fees (Park, Water and Sewer). These "deficits" will be recovered through future impact fee collections.

CITY OF SMITHFIELD  
GOVERNMENTAL AUDIT REPORT

June 30, 2006



**Certified Public Accountants**

1011 West 400 North, Suite 100  
P.O. Box 747  
Logan, UT 84323-0747  
Phone: (435) 752-1510 • (877) 752-1510  
Fax: (435) 752-4878

**OFFICERS:**

*Paul D. Simkins, CPA*  
*Michael C. Kidman, CPA, MBA*  
*Brent S. Sandberg, CPA*  
*Brett C. Hugie, CPA*  
*Mark E. Low, CPA*  
*H. Paul Gibbons, CPA*

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS**

To the Mayor and City Council  
City of Smithfield  
Smithfield, UT

We have audited the financial statements of the governmental activities, business-type activities, and each major fund of the City of Smithfield, Utah (the City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we also noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated January 17, 2007.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of the City, the City Council, and State agencies and is not intended to be and should not be used by anyone other than these specified parties.



JONES SIMKINS, P.C.  
January 17, 2007

This page intentionally left blank

CITY OF SMITHFIELD  
STATE COMPLIANCE REPORT

June 30, 2006



**Certified Public Accountants**

1011 West 400 North, Suite 100  
P.O. Box 747  
Logan, UT 84323-0747  
Phone: (435) 752-1510 • (877) 752-1510  
Fax: (435) 752-4878

**OFFICERS:**

*Paul D. Simkins, CPA*  
*Michael C. Kidman, CPA, MBA*  
*Brent S. Sandberg, CPA*  
*Brett C. Hugie, CPA*  
*Mark E. Low, CPA*  
*H. Paul Gibbons, CPA*

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH STATE LEGAL COMPLIANCE REQUIREMENTS**

To the Mayor and City Council  
City of Smithfield  
Smithfield, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Smithfield, Utah (the City), for the year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 17, 2007. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major state assistance programs from the State of Utah:

Class C Road Funds (Department of Transportation)  
Liquor Law Enforcement Funds (State Tax Commission)

The City also received the following nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the City's financial statements).

Public Library Services Development Grant (Department of Community and Economic Development)



Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Truth in Taxation and Property Tax Limitations
- Justice Courts
- Special Districts
- Other Compliance Issues
- Uniform Building Code Standards
- Impact Fees and Other Developmental Fees
- Asset Forfeiture

The management of the City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinions.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, the City, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.



JONES SIMKINS, P.C.  
January 17, 2007